Qualitative Information on Consolidated Operating Results for the Nine Months Ended December 31, 2019

(1) Analysis of consolidated operating results

The consolidated operating results of the JAIC Group for the nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019) recorded operating revenue of 1,801 million yen (down 6.6% year-on-year), operating gross profit of 548 million yen (up 3.1% year-on-year), operating loss of 391 million yen (compared to an operating loss of 448 million yen for the same period of the previous year), ordinary loss of 614 million yen (compared to an ordinary loss of 647 million yen for the same period of the previous year) and loss attributable to owners of parent of 710 million yen (compared to a loss attributable to owners of parent of 199 million yen for the same period of the previous year). The breakdown of operating results and the background of our business activities are as follows.

(1-1) Breakdown of Operating Results

(a) Breakdown of operating revenue and operating cost

(Fund management fees and success fees)

Investment fund management fees decreased 14.3% by year-on-year to 101 million yen. This was attributable primarily to a decline in fees from some investment funds in line with the liquidation of investment funds and the changes in the fee system during the previous consolidated fiscal year.

(Investment income)

While proceeds of sales of operational investment securities increased by 18.9% year-on-year to 772 million yen, realized capital gains, which are calculated by deducting cost of securities sold from proceeds of sales of operational investment securities, decreased by 15.2% year-on-year to 294 million yen. These reflect a decline in sales of listed shares with higher investment returns compared with the same period of the previous fiscal year and the recording of a loss on sale as a result of the sale of unlisted shares with a large amount of investment by prioritizing the liquidation of shares.

The total amount of investment write-offs and provision for allowance for possible investment losses decreased by 57.8% year-on-year to 283 million yen. In both the first nine months of the current fiscal year under review and the same period of the previous fiscal year, losses were recorded for investment assets whose sales were expected to fall below the investment amount. In the first nine months of the previous fiscal year, losses were recorded for the shares of an overseas investee company in which JAIC has invested in a large amount for a long period of time. Meanwhile, in the first nine months of the current fiscal year under review, the amount of loss declined since losses were recorded for shares of investee companies both in Japan and overseas in which JAIC has invested in a smaller amount. As a result, investment income, which is calculated by deducting investment write-offs and provision for allowance for possible investment losses from realized capital gains, returned to profitability at 10 million yen (compared to an investment loss of 325 million yen for the same period of the previous year).

(Fund interests income, etc.)

Fund interests income, etc. includes revenue from electricity sales and revenue from vegetable sales of the projects operated by the JAIC Group, interests income from the projects operated by other companies (net profit from the projects sourced from the revenue from electricity sales, proceeds from the sale of projects), interests income from private equity funds operated by other companies, interest and dividend income and other income.

The total amount of fund interests income, etc. for the first nine months of the current fiscal year under review decreased by 20.2% year-on-year to 913 million yen. Out of this, revenue from electricity sales and revenue from vegetable sales of the projects operated by the JAIC Group accounted for 818 million yen (down 5.2% year-on-year). The revenues dropped from the same period of the previous fiscal year since the decline in revenue from electricity sales of the projects sold during the previous fiscal year could not be covered by the revenue from the new projects. In addition, interests income from the private equity funds operated by other companies decreased by 76.3% year-on-year to 62 million yen owning to a decline in gains on sale of shares by the funds.

(Fund interests losses, etc.)

Fund interests losses, etc. include cost of electricity sales and cost of producing vegetables of the projects operated by the JAIC Group, interests losses (costs, etc. of projects under construction) of the projects operated by other companies and interests losses, etc. of the private equity funds operated by other companies. The total amount of fund interests losses etc. for the first nine months of the current fiscal year under review increased by 17.0% year-on-year to 486 million yen. Out of this, cost of electricity sales and cost of producing vegetables of the projects operated by the JAIC Group accounted for 463 million yen (up 24.7% year-on-year), reflecting an increase in cost of producing vegetables at vegetable factories compared with the same period of the previous fiscal year.

As a result, operating revenue decreased by 6.6% year-on-year to 1,801 million yen, operating cost decreased by 10.3% year-on-year to 1,253 million yen and operating gross profit increased by 3.1% year-on-year to 548 million yen.

(b) Selling, general and administrative expenses and operating income

The total amount of selling, general and administrative expenses decreased by 4.1% year-on-year to 939 million yen. The main reason for the decrease was a reduction in personnel expenses and administration outsourcing costs.

As a result, operating loss amounted to 391 million yen (compared to an operating loss of 448 million yen for the same period of the previous year).

(c) Non-operating income, non-operating expenses and ordinary income

Non-operating income decreased by 75.6% year-on-year to 22 million yen due mainly to a decline in foreign exchange gains that occur at the time of the collection of investment assets denominated in foreign currencies.

Non-operating expenses decreased by 15.6% year-on-year to 245 million yen primarily reflecting a drop in interest expenses. In addition to the reduction of loans payable on a non-consolidated basis, loans payable for the projects sold during the previous fiscal year decreased. Meanwhile, interest expenses related to the projects under construction are recorded under construction in progress instead of expenses. For this reason, interest expenses decreased compared with the same period of the previous fiscal year, while the balance of loans payable by project finance increased.

As a result, ordinary loss amounted to 614 million yen (compared to an ordinary loss of 647 million yen for the same period of the previous year).

(d) Extraordinary income and profit attributable to owners of parent

(Extraordinary income)

For the first nine months of the previous fiscal year, total extraordinary income

amounted to 465 million yen due mainly to the recording of gain on redemption of investment securities of 425 million yen. On the other hand, for the first nine months of the current fiscal year under review, total extraordinary income amounted to 17 million yen reflecting the recording of gain on sales of shares of subsidiaries and associates and gain on liquidation of subsidiaries and associates as a result of the disposition of dormant Group companies. Gain on sales of land, etc. was also recorded.
For the first nine months of the previous fiscal year, total extraordinary loss amounted to 102 million yen due mainly to the provision for loss on liquidation of subsidiaries and associates of 73 million yen. On the other hand, extraordinary loss was not recorded for the first nine months of the current fiscal year under review.
As a result, loss before income taxes amounted to 596 million yen (compared to a loss before income taxes of 284 million yen for the same period of the previous year).

(Profit attributable to owners of parent)
Total income taxes of 15 million yen (up 19.9% year-on-year) were recorded primarily for subsidiaries. In terms of tax, since tax loss carryforwards are expected to occur both in the first nine months of the current fiscal year under review and the same period of the previous fiscal year, JAIC conservatively estimated tax effect accounting and did not recognize deferred tax assets.
Profit/loss attributable to non-controlling interests represents the portion of profit/loss from the investment funds and projects operated by the JAIC Group which is attributable to investors other than the JAIC Group. In the first nine months of the current fiscal year under review, the amount of profit from the aforementioned investment funds and projects exceeded the amount of loss, resulting in profit attributable to non-controlling interests of 98 million yen (compared to a loss attributable to non-controlling interests of 97 million yen for the same period of the previous year).
As a result, loss attributable to owners of parent amounted to 710 million yen (compared to a loss attributable to owners of parent of 199 million yen for the same period of the previous year).

(1-2) Business Position
(a) Investment activities
(Note) The aggregation method has been changed from the first nine months of

the current fiscal year under review to better reflect JAIC's investment performance. In the past, investments in funds managed by third parties other than JAIC, for which the JAIC Group is not involved in fund management, had not been included. However, from the first nine months of the current fiscal year under review, investments in such funds for which the investment targets are specified and those for which JAIC actually can select investment targets have been included. As a result, the amount of new investments in project oriented investment for the first nine months of the current fiscal year under review increased by 623 million yen, compared with the amount aggregated by using the previous method. Meanwhile, the changes in aggregation method have no impact on the results for the first nine months of the previous fiscal year and the previous fiscal year. Balance of investments as of December 31, 2019 also increased by 623 million yen, compared with the balance of investments aggregated by using the previous method. Meanwhile, the changes in aggregation method have no impact on the balance of investments as of March 31, 2019 and as of December 31, 2018.

For the first nine months of the current fiscal year under review, new investments increased by 3.8% year-on-year to 2,927 million yen in 18 companies/projects. As of December 31, 2019, the balance of investments increased year-on-year to 14,490 million yen in 135 companies/projects (compared to 13,951 million yen in 134 companies/projects as of March 31, 2019).

As for private equity investment, when JAIC's own capital is used, JAIC makes strategic investment in partner companies for project oriented investment in a selective manner based on business themes in line with its management philosophy in principle. When the capital of a fund is used, JAIC makes investment pursuant to the fund's investment policy.

For the first nine months of the current fiscal year under review, new investments significantly increased by 614.7% year-on-year to 977 million yen in 9 companies as a result of an increase in strategic investment.

In terms of return on investment, JAIC sold domestic listed shares and endeavored to secure return on investment in overseas unlisted shares. As a result, the balance of investments as of December 31, 2019 decreased year-on-year to 8,298 million yen in 103 companies (compared to 8,437 million yen in 108 companies as of March 31, 2019).

Looking at project oriented investment for the first nine months of the current fiscal year under review, new investments decreased by 27.3% year-on-year to 1,950 million yen in 9 projects. The decline reflecting the fact that the size of mega solar projects that JAIC invested in during first nine months of the current fiscal year under review was smaller than those during the same period of the previous fiscal year.
JAIC invested in three new and one existing mega solar projects. In addition, JAIC made additional investment in plant factories and invested in an operator of an intermediate treatment facility for waste that can be used as law materials for biogas power generation. In addition, as new fields for project oriented investment, JAIC invested in logistics facility construction projects and a commercial building in Japan.
In terms of return on investment, while JAIC sold one 1.2MW mega solar project during the same period of the previous fiscal year, JAIC did not sell any projects during the first nine months of the current fiscal year under review. Meanwhile, the balance of existing projects decreased due to the receipt of dividends. As a result, the balance of investments as of December 31, 2019 increased year-on-year to 6,191 million yen in 32 projects (compared to 5,514 million yen in 26 projects as of March 31, 2019).
As of December 31, 2019, JAIC invested in 24 mega solar projects with the capacity of 99.8ＭＷ which are either currently selling electricity or are under construction or planning. Out of these mega solar projects, the portion that attributable to JAIC is 56.4ＭＷ in capacity. JAIC also invested in renewable energy projects other than mega solar projects including two biogas projects with the capacity of 1.6ＭＷ (one project with the capacity of 0.03ＭＷ is currently selling electricity), one woody biomass project with the capacity of 2.0ＭＷ (currently selling electricity), and one wind power project with the capacity of 25.2ＭＷ (under planning).

(b) Management of investment funds
As of December 31, 2019, the number of investment funds, for which the JAIC Group is responsible for management, operation or provision of investment information, totaled 10, and the balance of total commitment amounts under management amounted to 16,094 million yen (compared to 10 investment funds with 16,494 million yen as of March 31, 2019). While there were no changes due to the establishment of new investment funds or the liquidation of existing investment funds, the balance of total commitment amounts under management

decreased year-on-year as a result of foreign exchange fluctuations.

(2) Cash flows

(Cash flow from operating activities)

Net cash used in operating activities totaled 950 million yen (compared to net cash generated from operating activities of 994 million yen for the same period of the previous fiscal year), due mainly to the recording of a loss before income taxes and the payment for purchase of investment funds of 1,383 million yen (compared to payment for purchase of investment funds of 260 million yen for the same period of the previous fiscal year) in line with the progress in investment activities.

(Cash flow from investing activities)

Net cash generated from investing activities decreased year-on-year to 64 million yen (compared to net cash generated from investing activities of 703 million yen for the same period of the previous fiscal year) mainly due to a decline in proceeds from redemption of investment securities to 47 million yen (compared to proceeds from redemption of investment securities of 696 million yen for the same period of the previous fiscal year).

(Cash flow from financing activities)

Net cash used in financing activities amounted to 1,617 million yen (compared to net cash used in financing activities of 2,173 million yen for the same period of the previous fiscal year), due to repayments of long-term borrowings.

Net cash used in financing activities decreased year-on-year reflecting a decrease in repayments as a result of changes in financing policy that had prioritized repayments.

Cash and cash equivalents as of December 31, 2019 decreased by 2,524 million yen from March 31, 2019 to 1,557 million yen, after deducting effect of exchange rate change on cash and cash equivalents of 20 million yen.

(3) Financial position

(Assets)

Total assets as of December 31, 2019 increased year-on-year to 29,433 million yen (compared to total assets of 28,845 million yen as of March 31, 2019), due mainly to an increase in renewable energy power plants and a vegetable factory for the

projects operated by the JAIC Group.
Cash and deposits decreased year-on-year to 3,370 million yen (compared to cash and deposits of 7,108 million yen as of March 31, 2019), as a result of repayments of loans payable and new investments. Meanwhile, the amount included deposits attributable to the investment funds operated by the JAIC Group. They are funds that must be managed in accordance with each fund's partnership agreement, and are managed clearly separately from cash and deposits belonging to the JAIC Group. Cash and deposits belonging to the JAIC Group were cash and cash equivalents of 1,557 million yen as of December 31, 2019 (compared to cash and cash equivalents of 4,082 million yen as of March 31, 2019) in the consolidated statements of cash flows.

In addition, private equity investments conducted by the JAIC Group are highly affected by factors such as stock market fluctuations due to the nature of their business, and it is difficult to make a reasonable forecast of business results in the current volatile environment. As a result, the amount of funds recovered from private equity investments could decline significantly. Under these circumstances, the JAIC Group must maintain a certain balance of cash and deposits at all times to ensure not only the payment of expenses and interest and the repayment of loans payable but also the investment for future growth.

In assets, property, plant and equipment as of December 31, 2019 increased year-on-year to 14,030 million yen (compared to property, plant and equipment of 10,656 million yen as of March 31, 2019), primarily reflecting an increase in renewable energy power plants and a vegetable factory for the projects operated by the JAIC Group.

In assets, operational investment securities as of December 31, 2019 amounted to 10,232 million yen (compared to operational investment securities of 10,242 million yen as of March 31, 2019). Both the recovery of investments and the execution of new investments progressed, the amount remained virtually unchanged year-on-year.
Allowance for possible investment losses as of December 31, 2019 increased year-on-year to 1,624 million yen (compared to allowance for possible investment losses of 1,538 million yen as of March 31, 2019), due to the provision for investment losses in line with the devaluation of investment assets, despite the sale of

investment assets with the provision for investment losses and the reversal resulting from the recording of valuation losses.
As a result, the investment loss provision ratio (ratio of allowance for possible investment losses to operational investment securities) as of December 31, 2019 was 15.9%, up 0.9 points from March 31, 2019.

(Liabilities)
Total liabilities as of December 31, 2019 increased year-on-year to 21,117 million yen (compared to total liabilities of 20,444 million yen as of March 31, 2019), reflecting an increase in project finance for the projects operated by the JAIC Group.

In liabilities, total of loans payable and bonds as of December 31, 2019 amounted to 20,325 million yen (compared to total of loans payable and bonds 19,552 million yen as of March 31, 2019). Of the foregoing, JAIC's non-consolidated base loans payable as of December 31, 2019 were 8,166 million yen (compared to non-consolidated base loans payable of 9,784 million yen as of March 31, 2019). The balance of loans payable by project finance and bonds for the projects operated by the JAIC Group as of December 31, 2019 amounted to 12,158 million yen (compared to loans payable by project finance and bonds for the projects operated by the JAIC Group 9,768 million yen as of March 31, 2019).

JAIC's non-consolidated base loans payable decreased year-on-year, reflecting the repayments of 1,617 million yen for the first nine months of the current fiscal year under review. JAIC will continue to reduce its non-consolidated loans payable in the future. On the other hand, project finance for the projects operated by the JAIC Group will not affect the financial soundness of the JAIC Group, since its source of payments is limited to the assets and revenues of the projects. Therefore, JAIC has a policy to continue to promote leveraged investment by expanding fund raising through project finance, etc. in a wide range of projects including renewable energy projects operated by the JAIC Group, thus enhancing its profitability without compromising on financial soundness.

(Net assets)
In net assets, total shareholders' equity as of December 31, 2019 decreased year-on-year to 6,424 million yen (compared to total shareholders' equity of 6,796 million yen as of March 31, 2019), due to the recording of a loss attributable to owners of

parent. As a result, the equity ratio as of December 31, 2019 decreased by 1.8 points year-on-year to 21.8% (compared to the equity ratio of 23.6% as of March 31, 2019). Meanwhile, JAIC's non-consolidated equity ratio as of December 31, 2019 rose 2.8 points year-on-year to 41.7% (compared to the equity ratio of 38.9% as of March 31, 2019). This is as a result of improvement in financial soundness in line with the reduction of loans payable.

Total net assets as of December 31, 2019 remained virtually unchanged year-on-year at 8,316 million yen (compared to total net assets of 8,400 million yen as of March 31, 2019), due to an increase in non-controlling interests. Non-controlling interests increased, reflecting profits and unrealized gains attributable to investors other than the JAIC Group in the investment funds and projects operated by the JAIC Group.

(End)